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summaries

SIGMA INVESTMENT COUNSELORS

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PATIENCE

"The stock market is a device for transferring money from the impatient to the patient."

-Warren Buffett

As we sit twelve months removed from the initial COVID-19 shutdowns, I've struggled to wrap my head around just how much has happened in the world over such a short period of time. It feels as if we've experienced a decade's worth of news over the course of 365 days. This has many investors processing change and making decisions at a rapid pace. At the same time, the aforementioned quote is a powerful reminder that simply having patience can be so important.

I recently read a book titled Grind by Michael McFall, the Co-CEO of Biggby Coffee. Michael has spent the last 25 years growing Biggby Coffee from a single location in East Lansing, Michigan to more than 240 locations in 13 states. He describes patience as one of the fundamental keys to his own success: "Patience isn't about being OK with time passing; patience isn't about accepting any eventuality. Patience is making sure you are sticking to your knitting, knowing it is going to work in the end-doing the right things day in and day out, knowing the results will show up." This applies to financial planning and portfolio management just as much as it applies to selling coffee, especially over the past year.

If we look at the last 12 months from an economic news standpoint, the headline numbers are jarring. US unemployment went from 3.5% in February of 2020 to 14.8% two months later, which was the highest unemployment rate since the Great Depression. That number sits at 6.2% today. Those who took drastic protective action within their portfolios when 20.5 million US jobs were lost in April of last year came to regret it. Those who held a diversified portfolio, didn't panic and rebalanced into market weakness were rewarded for their patience.

The annualized rate of real US GDP growth was +2.4% in the fourth quarter of 2019 and fell to -31.4% by the second quarter of 2020 (also the worst reading since the Great Depression). That data point rebounded to +33.4% by the third quarter. Fourth quarter GDP came in at +6.0% and many estimates for full-year 2021 currently stand at 6.0% or higher. Patience.

In the US equity markets, the S&P 500 Index had a breathtaking 34% peak-to-trough drop in the first quarter of 2020. Having recouped all of its losses and then some through the early fall, a material pullback prior to the US elections had many investors on edge. Investors on both sides of the political aisle felt that the outcome of the election could spell imminent disaster for the markets and their portfolios. The S&P 500 had its best month in 33 years in November of 2020 and finished the year with a total return of +18%. At the time of this writing, the S&P 500 Index is up just over 2% for 2021. Patience.

In most market recoveries, assets prices bottom out and start their march higher well in advance of the economic news getting better. We saw this in early 2009 and again in March of 2020. When financial news networks had a nonstop barrage of 'experts' predicting that things were going to get much worse, following their advice would have been ill-advised. Patience.

Now that we've seen financial markets fully recover alongside a Federal Reserve and Congress that have reiterated their unwavering support for the economy, we could be in a period of sustained economic strength. Throw in a growing percentage of the population that has been vaccinated, a US personal savings rate of 20.5% in January of 2021 (a level that prior to COVID-19 has not been seen since WWII) and a reopening of the service sector and it may be hard to bet against US economic growth. At some point, excess consumer savings is likely to translate into higher consumption and consumption makes up roughly 70% of the US economy. More recently, there are rising concerns of the economy potentially overheating and inflation starting to take hold as the yield on the 10 year US Treasury bond has gone above 1.5% for the first time since before the pandemic. When yields rise, assets prices fall, all else equal. Don't be surprised if markets have trouble digesting higher interest rates, just as they did during the "Taper Tantrum" of 2013.

Even in the midst of a strong economic recovery, financial markets are known for taking a breather and even selling off before their next leg higher. When good news comes in and the markets have already priced in that news, it is normal for some selling to take place. In addition, periods of market volatility without positive price appreciation can be healthy for the markets. It can serve as a reminder to market participants that prices don't simply go straight up forever. Market returns may end up being muted this year, even if the economic picture continues to look better. Patience.

While writing this letter, I recalled several tense discussions with a long-term client who was understandably upset in March of last year. We had "missed our opportunity to sell" and as a result, he felt that years of portfolio progress had evaporated. We ultimately proceeded to do what we always do, which is to rebalance into weakness as opposed to trying to sidestep market corrections. In our last meeting, this particular client who has spent the better part of 30 years running large divisions of major manufacturing companies admitted that he learned a very valuable lesson in 2020. He said "Chris, I have to thank you for reminding me how sometimes it is so important to just be patient".

Interestingly enough, I'm finishing this piece as my wife and I wait for the arrival of our second daughter at the hospital. It's taking a little bit longer than we had hoped, so I guess we will just have to be patient.

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Please remember to contact Sigma Investment Counselors if there are any changes in your financial situation or investment objectives